

## The Highway Trust Fund Uses a Complicated Allocation Formula

TEA-21 authorized \$23.8 billion for Federal-aid highways during fiscal year 1998, which is more than triple the combined funding available for USDA Rural Development grant programs, Environmental Protection Agency (EPA) water infrastructure grants, and Housing and Urban Development (HUD) Community Development Block Grants (fig. 2).<sup>1</sup> According to the most recent data available, approximately one-third of total Federal-aid highway money is spent in rural areas, accounting for \$7.7 billion in fiscal year 1997 (U.S. Department of Transportation, 1997). Given the relatively large magnitude of Federal highway funding, the mechanism for allocating funds to States and localities takes on great importance.

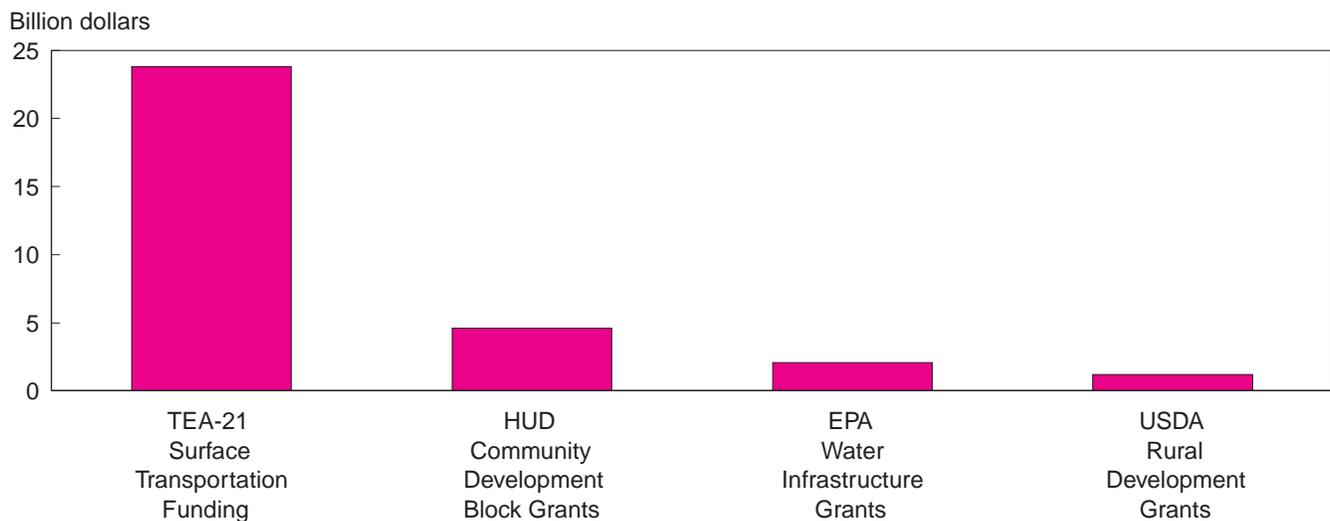
Most Federal highway aid is disbursed through the Highway Trust Fund, established in 1956 by the Federal-Aid Highway Act and the Highway Revenue Act. The Federal Highway Trust Fund allocates money to the States through the Federal-aid highway program (formally referred to as the Highway Planning and Construction program), a block grant program that allows States a wide degree of latitude in

determining how and where the money is spent. Cash inflows to the Trust Fund come from a variety of Federal excise taxes levied on motor fuel, rubber products, and heavy vehicles, with the single most important source of receipts being the Federal gasoline fuel tax, currently set at 18.4 cents per gallon and accounting for about 60 percent of Federal highway receipts in 1997 (U.S. Department of Transportation, 1997). Federal funding is restricted for use on capital expenditures, such as construction and reconstruction of roads. Regular maintenance on non-interstate roads, including pothole patching and snowplowing, must be funded through other sources.

Historically, each State's share under the Federal-aid highway program has been determined through the Federal highway funding formula, a complex series of calculations that are periodically revised by Congress. The base formula is composed of a series of calculations, whose sum produces a final allocation for each State (U.S. General Accounting Office, 1995). The bulk of funding is for specific programs set up to channel aid to the States for a variety of uses, such as providing capital funding for the Nation's most heavily used roads, maintaining interstates, and fixing bridges. Other calculations are designed to balance aid so that individual States that would otherwise have been disadvantaged in funding are eligible for additional resources. These include partial reimbursements for States that provide more in highway gas tax receipts than they receive back in Federal highway aid.

<sup>1</sup> Appropriations for Federal-aid highways are traditionally close to 100 percent of authorized levels.

Figure 2  
**Funding for selected development grant programs, FY98**  
*Surface transportation funding is, by far, the largest Federal development grant program*



Source: Calculated by the Economic Research Service using Census Bureau data.